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United Arab Emirates

Retail Food Sector

Report

2003

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Report Highlights: The UAE retail report continues its aggressive growth. More large type stores are being built. French retail chain already operates in the market while a new one is being prepared to launch its services. Value of retailed products are currently estimated by trades at about \$2.5 billion.

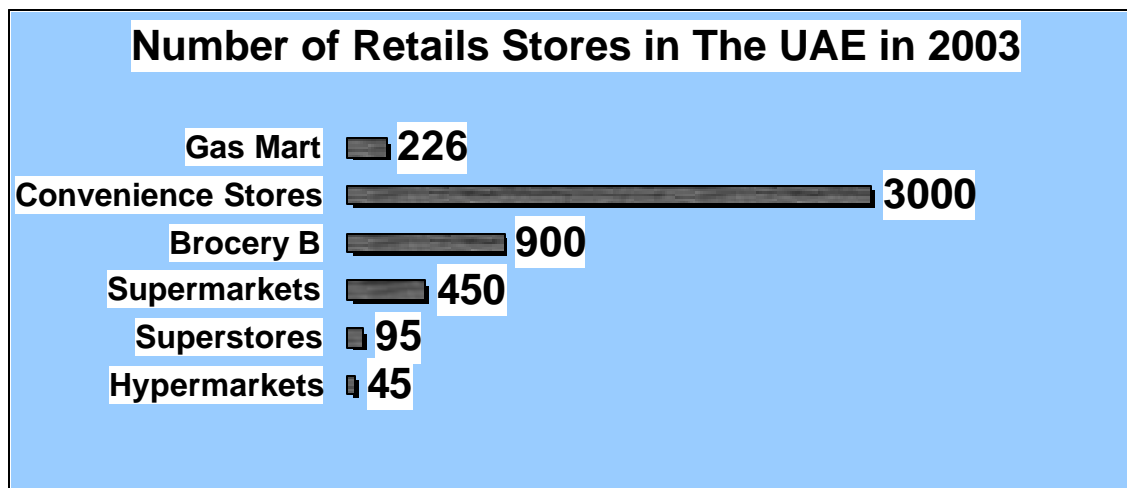
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TABLE OF CONTENTS

I. MARKET SUMMARY.....	3
II. ROAD MAP FOR MARKET ENTRY.....	5
Entry Strategy	5
Distribution Channels	6
Market Characteristics	7
A. SUPER STORES, SUPERMARKETS, HYPER MARKETS AND SUPER CENTERS, CLUB AND WAREHOUSE OUTLETS	7
Company Profiles:	7
B. Grocery Stores, Convenience Stores, Gas Marts.....	8
III. COMPETITION.....	9
Product Category	10
Major Suppliers Advantages.....	10
IV. BEST PRODUCTS PROSPECTS.....	12
A. Products holding strong market potential include:	12
B. Products not present in significant quantities, but which have good sales potential if marketing efforts focus on 'quality':.....	14
Food Import Regulations:.....	15
C. Other ATO Publications and Reports Concerning the U.A.E.	15
1. Publications	15
2. Attaché Reports.....	15
POST CONTACT AND FURTHER INFORMATION	15

I. MARKET SUMMARY

- ❑ The retail sector in the United Arab Emirates (U.A.E.) continues to grow and develop, a process that began in earnest nearly 10 years ago. Annually, many new state of the art stores are added to the country's retail map, creating continuous competition among the major retailers. The new stores match Western retail establishments in size and variety.
- ❑ The estimated annual value of the U.A.E. retail market is \$2.5 billion (no official statistics are available).
- ❑ The estimated average annual growth in retail sales is 5-10 percent. First year retail establishments report higher growth rates than those claimed by established firms.
- ❑ Foods sold in retail outlets consist 75-80 percent of imported consumer-ready products, and 20-25 percent of locally processed foods. With the exception of fresh tomatoes used in the production of tomato paste and catsup and a small quantity of fresh vegetables used in the production of frozen vegetables, almost every ingredient used in locally produced food is imported. Local date processing is a rapidly expanding industry.
- ❑ The introduction of hypermarkets and superstores is re-shaping the retail sector. In 2003, hypermarket openings increased 150 percent, reflecting the future market strength investors' hold for mega store operations. Superstore and supermarket openings grew only moderately, by 15 and 12.5 percent respectively. Convenient store openings are unknown, as no official data exists. Information provided below is based on trade estimates.



- ❑ Retail development is concentrated in the three largest emirates of the UAE - Abu Dhabi, Dubai and Sharjah, home for nearly 75 percent of the population. Consumers in those locations tend to shop more at larger stores and less on smaller grocery and convenience stores. Such stores are relied upon for last minute, spur of the moment food needs. However, in the further out suburbs and the lesser-developed areas of the country, grocery and convenience stores play an important role in the retail business.
- ❑ Hypermarkets, superstores and supermarkets, despite their limited number, are estimated

to account for nearly 50 percent of all retail sales. Smaller-sized groceries and convenience stores account for the other half.

- ❑ Co-operatives in the UAE, a movement that continues to grow each year, receive government support and attract broad-base support, particularly from U.A.E. nationals, who usually hold shares in these Co-ops, Arab expatriates and other expatriates in the low-to-medium income bracket. Co-ops generally cater to local and Arab clientele and are known for competitive prices on but a limited range of products. The market share of Co-operatives is estimated at 15 percent.
- ❑ With the exception of the Co-ops and Carrefour, all major chains import most products stocked. Consolidation is increasingly becoming important for U.S. products in view of their high price and limited demand for less desired products. Imports hold a marketing edge in this environment as these major chains also depend on local companies (importers/wholesalers/distributors) to supply items that are:
 1. Handled by an exclusive agent; or
 2. More economical to purchase locally, if the desired quantity is limited
- ❑ Major food companies (importers/retailers/wholesalers) own modern warehouse facilities, staff them with sales representatives, equip them with fleets of dry and refrigerated trucks, and operate them as food distribution/wholesale centers.
- ❑ New stores are extending their range of services to include sections for cooked products, ready-to-cook prepared foods, home delivery, cafeterias, banks, bakeries, laundries, audio/video shops, pharmacies, flower shops and more.
- ❑ Distribution/retail of alcoholic beverage is limited to a few authorized dealers only.

Advantages	Challenges
The U.A.E. enjoys one of the highest per capita incomes in the world.	Competition is keen for the consumer attention.
The retail sector is undergoing a revolutionary change as reflected by the resources devoted to upgrading existing stores and construction of new ultramodern outlets.	Lack of importers knowledge of the wide range of U.S. products and brands.
The HRI sector is expanding rapidly.	Competition with other low-priced products.

U.S. products are perceived as high quality and importers like to deal with U.S. suppliers/products	<p>*High freight rates make U.S. products less competitive to products imported from within the region and Europe.</p> <p>*Anti-American sentiments negatively affect consumer buying patterns, particularly consumers of Arabic origin.</p>
The U.A.E. imports nearly 80 percent of its food requirements	Lack of awareness of U.S. products by consumers

II. ROAD MAP FOR MARKET ENTRY

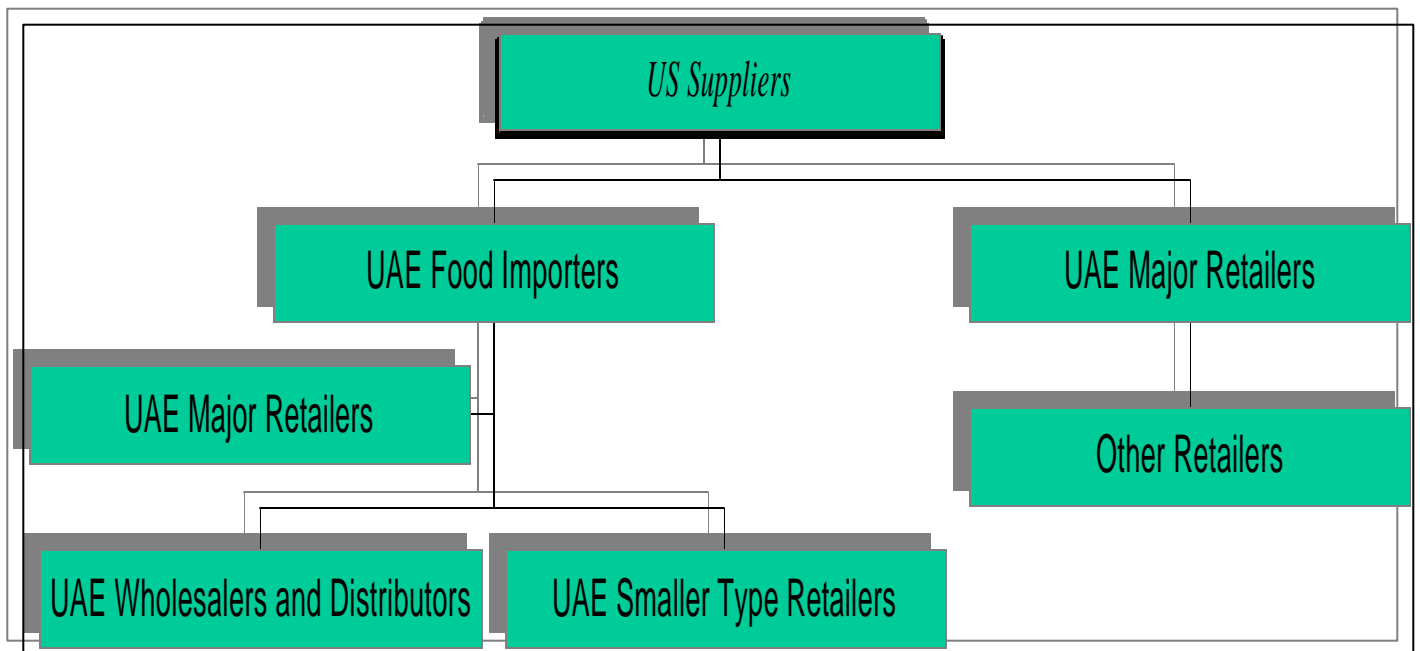
Entry Strategy

- ❖ U.S. companies are encouraged to exhibit at major trade shows within the region to develop name recognition. The Gulf Food (GF) Show, which takes place in Dubai, UAE, in odd numbered years, is the largest food show in the Middle East and is widely attended by major food traders in the Gulf region. GF will next be held in February 20-23, 2005. For more information, please contact ATO Dubai.
- ❖ Visit the region. Personal contact is a must to initiate business. It is the most effective means to establish on-going business relations in the U.A.E. as local food importers receive enormous quantities of letters, faxes and e-mail inquiries from potential food suppliers around the globe.
- ❖ Exhibit at the FMI/NASDA show held in Chicago each May. Many major Gulf region importers attend that show to seek out new products and business opportunities.
- ❖ Know the market, be familiar with labeling requirements and be prepared to discuss pricing and marketing plans with companies interested in your products.
- ❖ Be willing to entertain initial orders that are smaller than you would prefer, to share a shipment with other U.S. suppliers or to consolidate shipments with more than a product.
- ❖ Know that local importers are mainly interested in long-term commercial relationships.
- ❖ U.S. products are known for being of good quality, but pricey. Attract potential customers by showing how you can work with them to maintaining your product's quality while applying ways to reduce costs, thus your price.

Distribution Channels

- ❖ The U.A.E. food wholesale and distribution system is advanced, well equipped and efficient.
- ❖ Retail outlets purchase directly from importers and food manufacturers.
- ❖ Major retailers act as importers for a number of products and sell directly to other retailers.
- ❖ Co-ops are represented by a "Consumer Cooperative Union" that orders private label products under the Co-op brand name.
- ❖ Major importers market products to wholesalers/distributors who in-turn market these products to retail outlets across the country.

UAE DISTRIBUTION CHANNEL



Market Characteristics

**Hypermarkets, super markets, and superstores generally are located in urban areas. Smaller-sized stores are located in urban, suburban, towns and rural areas, with a larger concentration found in the country's interior.

**Locally processed food may represent only 20-25 percent of all retailed products but this sector is growing. Imported food products account for the lion's share of products. New-to-market products are welcome, but promotion is vital.

**Most developmental growth in the retail sector is occurring in large-sized stores. Consumers tend to conduct their primary shopping in larger stores and to depend less so now on grocery and convenience stores to meet basic needs.

**The U.A.E. is an affluent country holding one of the highest per capita incomes in the world.

**Expatriates represent about 75 percent of the total U.A.E. population

A. SUPER STORES, SUPERMARKETS, HYPER MARKETS AND SUPER CENTERS, CLUB AND WAREHOUSE OUTLETS

Company Profiles:

Retailer Name and Outlet Type	Ownership (local/foreign)	Sales (\$Mil)	No. of Outlets	Locations (City/Region)	Purchasing Agent Type
T. Choithram & Sons (TCS)	International	46	27	Regional	Importer/local buyer/distributor
Consumer Co-op	Local	220	82	Regional	Direct
Emirates Co-op	Local	50	5	Dubai	Direct
Abu Dhabi Co-op	Local	55	10	Abu Dhabi	Importer/local buyer
Abela Stores	Local	13	1	Abu Dhabi/Sharjah	Importer/local buyer/Wholesaler
Emke Group	Indian	400	28	Regional	Importer/local

					buyer/wholesaler
Shop n Save	Indian	75	42	Regional	Local buyer
Spinney's Dubai	Local	155	17	Regional	Importer/local buyer/wholesaler
Al Maya Lal's Group	UK/India	45	14	Regional	Importer/local buyer/distributor
Carrefour/MAF Hypermarkets	Local	150	8	Regional	Buys locally/Importer
Lebanese Fruit Co.	UAE/Lebanese	7	4	Sharjah/Abu Dhabi/Dubai	Importer/local buyer/distributor
Park n' Shop	Indian	10	1	Dubai	Importer/local buyer/distributor
Giant Supermarket	49/51 U.A.E./Indian	22	11	Regional	Importer/local buyer/wholesaler

B. Grocery Stores, Convenience Stores, Gas Marts

Company Profiles:

Retailer Name and Outlet Type	Ownership (local/foreign)	Sales (\$Mil)	No. of Outlets	Locations (City/Region)	Purchasing Agent Type
Emarat Gas Marts	Local	40	65	Regional	Local buyer
Modern Bakery & Supermarkets	Local	11	4	Regional	Importer/local buyer/distributor
Emirates Petroleum Co.	Local	60	160	Dubai	Direct

Note: Above information sourced from trade and ATO estimates for 2002/3

- Convenience/Grocery (C/G) stores far outnumber all other types of retail outlets.

- In urban centers, convenience stores serve as last minute, one-or-two item suppliers. However, in suburban and interior areas these stores are the primary supply centers.
- C/G stores account for 40-50 percent of the retail business but this market share is expected to decline given rapid developments in the retail sector.
- Generally, food importers/local processors deliver their products to C/G stores. In some cases, C/G owners augment store supplies by going to the importer or wholesaler. The latter case is particularly true when fresh produce is involved.
- Most C/G stores provide home delivery service thus their prices tend to be slightly higher than those offered by larger retail outlets.
- C/G stores are not suitable for marketing activities or introducing new-to-market products.
- The number of new Gas Marts outlets is rising rapidly. Companies are investing in this concept, giving outlets trendy new looks and stocking with a wide range of products, in effort to attract a more consistent customer base. Several Gas Mart operations have staged in-store promotions, but results are not readily available.
- C/G stores are franchise operations.

III. COMPETITION

- ❖ The U.A.E. depends heavily on imports to fill the gap between limited domestic food production and demand from a growing population base. Despite attempts to increase local production of food products in recent years the U.A.E. still imports an estimated 75-80 percent of its total food requirements.
- ❖ Drawn by the country's affluence, food suppliers from all over the world vigorously compete for market share. EU and Asian products pose the greatest competition to U.S. products. Both hold a proximity advantage, which translates to lower freight costs. In addition, Asian products enjoy an additional advantage of having a low cost of production. Locally processed food products are limited in range and are not very competitive to products of U.S. origin except for the categories of snack food, juices and some confectionery items.
- ❖ The U.S. market share for food imports is about 8 percent. Nearly 50 percent of products imported from the U.S. are consumer-ready. Some U.S. origin food is re-exported to countries throughout the region. Food re-exports (from all sources) total about \$1 billion annually.

Locally processed foods are made primarily from imported ingredients. In many cases, the U.S. is a significant supplier of those imported ingredients.

Product Category	Major Suppliers (% based on volume)	Major Suppliers Advantages
Beef Net imports: 30,618 MT US \$10 mil (CIF)	1. India: 73% 2. Australia: 9.5% 3. New Zealand: 4% US: Minor supplier 3.5%	India: Very price competitive due to low cost of production, negligible freight cost due to proximity. Australia: Competitively priced due to low production cost for range fed cattle, low freight cost due to bulk shipments. New Zealand: Good quality products which are less expensive than similar U.S. origin products.
Poultry Net imports: 136,000 MT US \$11.7 mil	1. Brazil: 58 % 2. France: 13% 3. Denmark: 12.6% US market share: 10.7%	Brazil: Very competitively priced due to low cost of production. Denmark and France: Lower price due to export subsidy received from the EU, proximity to the U.A.E.
Powdered Milk Net imports: 60,000 MT U.S.: \$0.2 mil	1. Holland: 30% 2. New Zealand: 22% 3. Denmark: 8% US market share: Negligible	Holland: Lower price due to export subsidy received from the EU New Zealand: Low cost of production and aggressive marketing has helped NZ to establish a solid market for all its dairy products. Denmark: Similar to Holland, but product availability for export less.
Dried Legumes & Lentils Net imports: 140,000 MT US: \$0.65 Mil	1. Iran: 28% 2. Australia: 12% 3. Canada: 10% US market share: 0.6%	Iran: Large production base, low cost of production and proximity. Australia: Lower cost of production. Canada: Aggressive marketing program.
Rice Net imports: 620,000 MT	1. Pakistan: 43% 2. Thailand: 38.3%	Pakistan: Large expat population that seeks basmati and certain long grain varieties, low cost of production, proximity to the UAE.

US: \$1.5 Mil	3. India: 16% US market share: 0.5%	Thailand: Low priced rice that mostly is re-exported to Iran. India: Proximity, low cost of production, supplies both basmati and long grain rice.
Chocolates Net imports: 18,850 MT US: \$2 mil	1. Turkey: 13 % 2. U.K.: 12.7% 3. France: 12.2% US market share: 3%	Turkey: Proximity, low cost of production. U.K.: Traditional supplier with broad name recognition. France: Reputation for good quality, strong marketing program.
Confectionery Net imports: 18,362 MT US: \$1.3 Mil	1. China: 10.6% 2. Turkey: 10.3% 3. Indonesia: 9.6% US market share: 1.6%	China: Low costing product of inferior quality Turkey: Low cost of production. Indonesia: Low cost of production but low quality products
Fresh Vegetables Net imports: 530,260 MT US: \$ 4 mil	1. Pakistan: 23% 2. India: 22% 3. Iran: 12% US market share: Negligible	Pakistan, India and Iran: Proximity, low cost of production.

- The U.S dominates the U.A.E. snack food market. Similar products of local origin are of lesser but improving quality. Snack food products produced in other Gulf States and Germany are also imported. The U.S. snack food brand Pringles is imported into the U.A.E. but is sourced from Belgium.
- U.S. breakfast cereal brands marketed in the U.A.E. are produced primarily in Europe under licensing agreements with the U.S. companies. Generally, breakfast cereals are sourced from the UK, Germany and Australia.
- Beef destined for the processing industry is sourced mainly from India. Beef destined for consumer retail is sourced primarily from New Zealand and Australia who already dominates the lamb and mutton markets. U.S. beef is popular within the HRI sector, among high-end hotels and restaurants. Due to its high cost, only one top-end retail chain markets U.S. beef.
- Poultry and products are primarily of French, Brazilian and Danish origin. Collectively those three countries account for nearly 80 percent of the poultry market. U.S. poultry products, particularly leg quarters, are growing in popularity but are considered pricey.

U.S. whole chicken is expensive compared to similar products from France and Denmark.

- Cheeses are sourced from many countries, led by France, Holland, Australia, Switzerland and the U.K. U.S. cheeses command a premium price, as most is flown-in by some major retailers in limited quantities. Milk powder is imported from Holland, Denmark and New Zealand. Other dairy products, such as fresh, re-constituted and UHT milk, yogurt and other Arabic-style dairy products, are produced/processed locally.
- Table eggs are sourced from India and Holland (now that the ban has been lifted). Locally produced and non-poultry eggs imported from other Gulf States are in demand for their freshness, though they are much more expensive.
- Pears are sourced primarily from the U.S. The U.S. is the second largest supplier of fresh apples after Iran. Many other fresh fruits and vegetables are imported from Iran, India, Pakistan, Saudi Arabia, Lebanon, Jordan, South Africa, Australia, Syria, Pakistan and Egypt.
- Almonds are imported primarily from the U.S. Other types of nuts are imported from Iran, Turkey and India.
- Non-alcoholic beverages are produced mostly locally though the market carries a broad range of such products from around the globe. The U.S. and South Africa remain the primary suppliers of high quality juices.
- Alcoholic beverages are imported primarily from the EU, Australia and India. The U.S. ships a limited quantity of beer, wine and bourbon to the market.
- Nursery stock is imported from Holland, India and Pakistan. In recent years local nurseries have sprouted.
- Pet foods are imported from the E.U., Australia and the U.S.
- Dates, tomatoes, certain other vegetables and, strawberries, are widely produced in the U.A.E. Fresh milk is supplied by a handful of large local dairy operations. Fresh chicken and table eggs are also locally produced but command prices substantially higher than similar imported products.

IV. BEST PRODUCTS PROSPECTS

A. Products holding strong market potential include:

Product Category	2002 Imports (MT)	5-Year Avg. Annual Import Growth	Import Tariff Rate (percent)	Key Constraints for Market Development	Market Attractive for USA
Beef	30,618	5-10 % per	0	Competition from established	HRI sector which is expanding rapidly

		per annum		suppliers from India, Australia and New Zealand	to service the building boom and population influx
Poultry	130,000	5-10 % per annum	0	Competition from established suppliers from Brazil, France and Denmark	Poultry parts for the HRI sector
Almond	14,772	5-10 % per annum	5	Competition from alternative nuts	Raw, shelled and processed almonds for the Retail and HRI sectors
Fresh Apples	100,323	5-10 % per annum	0	Strong competition from Iran, a major producer of low-priced red and golden apples, other varieties from Chile, France, China, New Zealand	Retail sector. With the U.S.'s advanced production and storage technology US apples are available to the market most of the year.
Juices	37,731	10 % per annum	5	Competition from locally produced and imported low quality low priced products from neighboring countries.	Retail and HRI sectors for high quality juices. Wholesale sector for bulk juices to be processed/packaged locally.
Food Preparations NES	43,933	5-10 % per annum	5	Intense competition from low quality products produced in neighboring countries as well as other Asian states	Retail and HRI sectors.
Sauces	11,971	5-10 % per annum	5	Increasing local production, imports from neighboring countries of less expensive, lower quality products	HRI sector, particularly fast food and casual dining, and major retail outlets.

In addition to the products listed above, the following products also hold strong potential if marketed aggressively:

- Alcoholic beverages (beer, wine)
- Assorted non-alcoholic beverages
- Pears and strawberries (fresh)
- Corn (frozen)
- Health foods and products for special needs such as diabetic foods
- Honey
- Ice cream
- Pet foods
- Snack Foods (salted, high quality)

B. Products not present in significant quantities, but which have good sales potential if marketing efforts focus on 'quality':

- Citrus fruits (fresh)
- Desserts (frozen)
- Jams and marmalades
- Pasta products
- Cheeses, Powdered milk
- Spices
- Whole chicken
- Breakfast cereals
- Fruits & vegetables (canned)
- Confectionery products, candies and chocolates
- Edible oils
- Rice

C. Products Not Present Because They Face Significant Barriers: This category is not relevant to the U.A.E. as the market is dependent on imported food products. Moreover, the U.A.E. applies a free trade policy that permits importation of food products with minimal or zero import duty. Staple food products enter duty free.

Retail outlets generally are stocked with a wide range of fresh, canned, chilled and frozen food products.

Currently, locally produced foods present minimal competition to imported foods. Locally processed products represent no more than 15 percent of the total volume of food products sold in retail stores.

Locally produced food and beverage products are limited to salty snack foods, to internationally known brand name soft drinks produced under licensing agreements, to packaged edible oils and juices, to processed dairy products and to a small quantity of locally grown then frozen vegetables.

Food Import Regulations:

The 2003 revised version of the "U.A.E. Food and Agricultural Import Regulations and Standards Report," currently available via the USDA/FAS home page. URL: <http://www.fas.usda.gov>

C. Other ATO Publications and Reports Concerning the U.A.E.**1. Publications**

American Food Directory 2002 This annual publication lists American food companies and franchises operating in the five Gulf countries administered to buy ATO Dubai as well as their local distributors. A free copy may be requested from the ATO Dubai.

2. Attaché Reports

Latest ATO Dubai market reports may be viewed via the USDA/FAS home page. URL: <http://www.fas.usda.gov/scriptsw/attacherep/default.htm>

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